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Britain and U.S. Face Need For Mutual Adjustments

The Anglo-American financial conversations which will open in Washington on September 7, with the participation of Canada, have caused both Britain and the United States to undertake a more rigorous analysis of their respective, as well as mutual, problems than had been deemed proper or necessary since the war. This analysis, shorn of trans-Atlantic recriminations that have been officially deplored on both sides, has brought out a number of important points, some of which at least will be reviewed at the Washington conference.

New Financial Aid Unlikely

The suggestion, often heard here, that Britain should devalue the pound sterling as a means of easing its so-called dollar crisis has been curtly dismissed by ECA Administrator Paul G. Hoffman who on August 26 in London said that devaluation was no "cure-all." His view is supported by some of our business leaders, who point out that devaluation, at best, would be but a temporarily effective shot-in-the-arm for Britain's economy. Once the pound had been reduced in value, moreover, the British would have to pay higher prices for imported raw materials that go into the making of their export goods, and might then have to raise the prices of their exports instead of lowering them, as they are now advised by many Americans to do. Meanwhile, however, speculation here and in Europe as to pound devaluation has had unfavorable repercussions on Britain's financial standing.

In a period when the United States is itself going through a period of economic

readjustment, and public sentiment favors tax reduction, the British have been warned that Congress, no matter how sympathetic to Britain or how eager to check communism in Europe, is not in a mood to make fresh financial grants—certainly not on a scale that could conceivably tide British economy over its present crisis. Some Britishers, realizing this, have proposed that the United States allocate funds under Point Four for the development of Britain's colonies in Africa and Southeast Asia, in the hope that the sale of certain colonial products in the American market would replenish Britain's depleted stock of dollars. This possibility was discussed by Eugene Black, president of the International Bank, with British officials during his visit to London last week. The contemplated grant is estimated at \$10 million. At present Washington's plans under Point Four call only for a total \$45 million government expenditure on technical assistance and for government guarantees of private investments through the Export-Import Bank. Private investments in Southeast Asia, it must be assumed, will have to await pacification and clarification of the turbulent situation in that area. In any case, neither British nor Americans interested in colonial developments expect Point Four aid to alleviate Britain's current difficulties.

Remedies Proposed by U.S.

The three remedies most frequently proposed by the United States are: 1) increase of British exports to the United States that would earn additional dollars; 2) integration of the economies of Britain

and other Western European nations, with abandonment of less productive plants, concentration by each nation on goods in which it enjoys a competitive advantage; and abolition of tariff and other trade restrictions; and 3) curtailment of British expenditures at home, particularly on social services. Mr. Hoffman has urged Britain, as well as other Marshall Plan countries, to turn from the relatively easy markets they find in the nondollar areas of Europe, and seek new outlets for their goods in the more difficult American market, where they could obtain dollars to close the gap that will develop between Europe and the United States when Marshall Plan aid ends in 1952. According to Mr. Hoffman's calculations, Western Europe should be able to increase its exports to this country from the current figure of \$1 billion to \$3 billion by 1952, or the expected deficit in European-American trade. A corollary of this suggestion is that the British must reduce their prices if they expect to sell more here, even if this has to be done by wage reductions, some measure of unemployment, and cuts in social services. The British, however, point out that they are in fact able to undersell American goods in other markets, and some American exporters are already complaining about British competition, notably in Latin America. There is also considerable fear here that the British, by concentrating on the European market, where they sell for sterling that cannot be converted into dollars, may actually divide world trade into two sectors—the sterling area and the dollar area—with serious results for the trade

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both of the United States and of other Marshall Plan countries. It is in the United States that the British find it difficult to compete with American producers. To Mr. Hoffman's plea for an increase in exports to the United States, the British, as well as other Western Europeans, reply that American tariffs hamper their efforts to sell here.

While it is true, as Mr. Hoffman said in London, that on an over-all basis American tariff rates, through various adjustments under the reciprocal trade agreements and tariff negotiations just completed by thirty-four nations at Annecy, France, have been reduced to the lowest level since 1914, European spokesmen contend that tariff rates on the goods they export to the United States remain high. For example, duties on cotton goods have risen from 35 to 40 per cent; the tariff on woolen goods, a British specialty, averages about 25 per cent and rises above that figure for some categories; and duties of 50 per cent are common on other European manufactured goods. Moreover, it is claimed on the European side that the red tape of customs procedure in this country seriously interferes with increase of exports. And meanwhile Congress failed to renew the Reciprocal Trade Agreements Act on June 30.

Proposals for integration of Western European economy and for modernization of British plants are often heard from Americans who at the same time deplore British socialism and oppose any form of planning. Yet it seldom seems to be realized here that British enterprises we regard as obsolete were allowed to decline into that condition not by the Labor government, but by British industrialists in a period when Conservative-dominated governments were in office. Whatever government in Britain would undertake to carry out American proposals for overhauling of the country's economic structure would have to disturb many more vested interests, do far more planning, and be considerably more ruthless than the Labor government has found it possible, or desirable, to be.

The Price of Socialism

The subject that has received most publicity here, however—perhaps because, emotionally, it offers the easiest target for criticism—is that the British must curtail government expenditures, especially on measures generically described as “the welfare state.” It is legitimate for American

taxpayers, who have furnished the \$7 billion this country has loaned or given Britain since 1945, to inquire as to how the money is being spent; and it is understandable that those of us who at home oppose social services that exist in Britain question the wisdom of British “socialism” in a period of great financial strain. It must be borne in mind, however, that British social services were inaugurated in 1906, by Liberal cabinets more than two decades before the Labor party was in a position to form a government. They have been steadily expanded both during the war, when Britain was ruled by a coalition government headed by Winston Churchill, and since the war's end, the most recently added item being the national health service. It should be pointed out that these social services are paid for by taxation, and that the Labor government has balanced the country's internal budget.

In the general reassessment now going on between Britain and the United States, it would be wise to realize that any British government, whatever its political complexion, was faced after the war, and would still be faced today, with the delicate problem of reorganizing Britain in such a way as to maintain production without permitting the deep-seated unemployment of the 1930's, and at the same time preserve Britain's traditional political liberties. The material costs, in British opinion at least, must be weighed against the intangible gains. While Britain has had some labor difficulties since 1945 (but not on a scale comparable to ours), it has experienced no such threat to production as that created by the general strike of 1926. Until now trade union leaders have cooperated with the government in holding the line on wages to a considerable extent. Despite austerity the British health record is at an all-time high because of improvements in nutrition, care of mothers and children, and preventive medicine. More men and women drawn from the ranks of what were once considered the “lower orders” are being given an opportunity to be educated above grammar school levels, and greater efforts are being made than ever in the past to provide also the technical training that is urgently needed if employers and workers are to modernize British production along the lines proposed by American industrialists and labor leaders. And whatever else may be said about Britain, it has maintained a sturdy democracy and

has shunned the extremes of both fascism and communism.

A frequently heard American argument is that British workers are inefficient and are not exerting themselves sufficiently—and more recently the same criticism has begun to be made about British industrialists. Aside from the question of how efficient we would all be if we had lived through the stress and strain of sleepless nights for months on end during six years of grueling war, the record shows that, by 1948, British industrial production had been raised to 136 per cent of the 1938 level; and according to United Nations figures the level of output per man in industry in 1947 stood at 108, with 1938, the last peacetime year, taken as 100. It is true that British industrial plant and machinery are not as adequate as those of the United States—but this has been true for the past thirty years or so; and during the war Britain was unable to modernize or expand its production facilities as this country was able to do.

Long-Term View Needed

The fundamental problem faced by Britain, as well as other Western European nations receiving Marshall Plan aid, is not that of production. In fact, it is because production, with our assistance, has recovered more rapidly than had originally been expected that some of the current export difficulties have arisen—for we are today where it was thought we would not be until 1952. Britain is faced with a readjustment bound to be painful, to its profoundly altered position in world trade. During the war it was forced to liquidate a large part of its foreign investments, the income from which, if still owned by British investors, would be about \$800 million a year and would alleviate the existing exchange imbalance. The truth that neither we nor the British have squarely faced is that no nation can fight through two world wars and experience great losses of men and material without coming out of it in a weakened condition. The British are confronted not with an emergency situation, but with a long-term process of adjustment. This process, the *London Times* pointed out on August 23, “is bound to be difficult, because Britain has lost the natural advantages which formerly assisted her industrial growth. She lacks the raw materials for many of the newer industries—oil, pulp, bauxite, for example; she lacks the advantage of cheap fuels—natural gas and oil as well

as cheap coal; and she has no access to great resources of hydroelectric power." No amount of fulmination about either the Labor party or the Conservatives will alter these hard realities.

The United States, too, has realities to face which have so far been relegated to the background, or altogether disregarded. New financial grants to Britain offer no solution. In fact, it would seem wiser for both sides to start by considering non-monetary measures of mutual adjustment assistance. Have we adjusted to the new situation in which this country has become Britain's successor as the greatest trading and financial nation of the world? Are we prepared to become, not only a giver of gifts for emergency purposes, important and valuable as these have been in the critical postwar years, but a long-term creditor nation as Britain was in its heyday, when, among many other things, British investors helped to finance our own

industrialization? Do we fully realize the problems created for all nations, not merely Britain, by the enormous productive capacity of our economy which, although it is not self-sufficient, is so vast and versatile that we offer practically unbeatable competition to other countries in our own market, and need to import relatively little from abroad? Would we be willing to lower tariff rates on goods in which Britain, and other Marshall Plan countries, have competitive advantage over us, and to curtail what British Foreign Secretary Bevin has called the American "socialism" of government subsidies to our shipping, price supports for our agriculture, and aid for the development here of synthetic rubber? Can we reconcile our asserted desire to help improve the living conditions of undeveloped countries with our constant reminder to the British that they would do well to lower the standard of living of their workers?

If the British reach the point where they prefer to choose continuance of a tolerable living standard that offers the best safeguard against communism rather than continue current expenditures on armaments and maintenance of colonial outposts like Hong Kong, are we ready to take over British commitments in Asia as we have done in the eastern Mediterranean?

The Marshall Plan was never regarded by responsible Americans and Europeans as a universal panacea. The Washington conference cannot hope to tackle all the many-faceted problems at stake in our relations with Britain. All it can be expected to do is to dispel some mutual misapprehensions and misunderstandings, and clear the way for a more realistic appraisal of the existing world situation.

VERA MICHELES DEAN

(The second of three articles on current developments in relations between Europe and the United States.)

Economic Crisis Threatens Chilean Democracy

Chile, which commentators frequently pair with Uruguay as democracy's white hope in Latin America, is in danger of losing its title in the zeal to defend it. For the past two years the existence of the González Videla government—now in mid-term—has been threatened from two directions: in 1947 by what was claimed to be an international conspiracy emanating from native Communists incited by Yugoslav agents of the Cominform; and in 1948 from Chilean militarists who wanted to apply Argentine *peronismo* in their own country. The uniquely Chilean combination of civilian rule, exercised by a strong executive and checked by a lively, skeptical press and public opinion, has so far kept the country in balance. But this balance is becoming precarious. In order to maintain himself, President González has had to shift his ballast progressively to the Right. A working agreement with the Conservatives and Liberals enabled the government Radical party to legislate its one-time supporters, the Communists, out of legal existence in 1948, and this understanding was afterward fortified by inclusion of members of these parties in the cabinet. In the process, however, the forces which have contributed to Chile's reputation for stability—a responsible opposition, a free press, and the trade union movement—have suffered a severe setback.

The demonstrations and strikes which came to a head August 17 bring the threat to Chilean democracy into clearer focus. Their immediate cause seemed trivial: a 20-centavo increase in the fare of the ancient jitney buses which transport Santiago workers to and from their places of employment in packed, sweating, flea-ridden discomfort. Santiaguinos took a typically Latin revenge; spurred on by university students, they attacked the buses. Four days of demonstrations and street rioting followed and on August 17 President González Videla sent an urgent message to Congress demanding "special powers" to deal with the situation. The strikes, he declared, were "part of the seditious plan of international communism against which the government has repeatedly warned." He said this plan exposed Santiago and other Chilean cities to the fate of Bogotá, which was reduced to rubble by Communist-led agitators in April 1948. By August 20 all Chile was in a state of emergency and troops and warships had been dispatched south to Concepción where over 1,000 workers had occupied the Lota coal mine galleries in a sitdown strike, while other units had gone north to Antofagasta where 800 nitrate workers were reported to be out on strike. The government declared on August 22 that order had been restored and the danger of a general strike averted.

Three factors help to explain the developing crisis, of which these riots were an incident. Chile's acute sensitivity to international economic developments, once more demonstrated in the recent fall of copper prices; the collective and individual inability of Chileans to practice the austerity which the government preaches, although this is a necessary part of the program to increase production and make the country less dependent on international markets; and the failure of any group, in government or out, to attract the loyalties of the leaderless Chilean masses.

Copper Today, Tomorrow Steel

Chile's exclusive dependence on foreign markets means that tremors in Wall Street or the City of London produce seismic disturbances in the South American country, and last spring's break in the copper market once again illustrated the tyranny which its mineral exports exercise over the Chilean economy. Statisticians in the Ministry of Finance have calculated that each decline of one cent in the price of a pound of copper costs the country \$3.5 million, and the price went in short order from 23.5 cents to 16 cents before steadying at 17.5 cents in July. Recalling the depression experience which culminated in the 1932 revolution, Chileans knew that the copper slide could have far-reaching repercussions on the carefully calculated foreign exchange budget, gov-

ernment revenues, employment, and—most important—the program for economic diversification which the energetic Chilean Development Corporation now has underway. To compound these difficulties, representatives of mining states in the American Congress proposed the revival of the prewar excise tax on imported copper, although opposition from the State Department and big copper companies with foreign interests has thus far blocked this proposal.

The Chilean government has endeavored to meet the immediate emergency by tightening up exchange regulations and asking for a dollar loan from the Export-Import Bank, while creating a public works program for unemployed workers and proposing a subsidy for the marginal copper producers who have been forced to the wall by the price decline. In the long run, it is believed that the new industries now in the survey or construction stage, such as the integrated steel mill, Magallanes oil, and the proposed expansion of irrigated lands, will effect "savings" of foreign exchange running into many millions of dollars—depending on future cost and price relationships. Until then "austerity" must be the keynote of the Chilean economy activity.

The inflation which "austerity" is designed to combat is partly a reflection of world tendencies, but it also derives from speculation in food and other scarce commodities, ineffectual price controls and a series of unbalanced budgets and currency emissions. During the strike-ridden year of 1947 the cost-of-living index rose from 283 to 378—a flight of prices only exceeded by that of Bolivia in all Latin America—while in the year ending May 1948 it increased an additional 21 per cent. Even after the copper market began to weaken, prices still had some bounce in them; increases in gas, electricity and water rates were announced just as the Chilean winter set in, sorely trying the patience of consumers which cracked altogether with the rise in bus fares.

The government explained that the increase in public transportation rates was required by a July measure raising the rate of exchange granted for imported gasoline, among other commodities, from

31 to 43 pesos, and was, as such, a direct consequence of the recession in minerals. Public sympathies in the first hours of the demonstrations were almost wholly on the side of the riders until it became known that Communists had used the riots to their own advantage. But the fare increase was repealed; and at the same time the government mounted a new campaign to reduce rates in public services and utilities, and to curb speculation in food and rents. On August 27, however, a cabinet crisis was provoked by the resignation of Finance Minister Jorge Alessandri, who had been the leading advocate of the austerity policy.

A Voice for Chilean Labor

To the ordinary citizen of Chile, the ultimate lesson of the experience of the past two years seems to be that the administration's alliance with Rightist parties deprives him of a stake in any of the established political groups. The Socialist party, now split three ways, long ago lost ground to the Communists as a result of its internal quarrels and political errors, and has never been able to regain it, even with government support, while the Communist movement lost favor as a result of its abuse of cabinet office in 1946-47. González and the center Radicals, having disavowed the support of the extreme left wing with whose aid they came to power, can now govern only with the uncertain support of the aristocratic Conservatives and the wealthy Liberals. The appeal of splinter groups like the Christian Democrats, known in Chile as the National Falange, is doctrinaire rather than dynamic.

That no adequate leadership for Chilean labor exists was indicated by the results of the March Congressional elections, when the government parties lost ground either to factions which splintered off from the main groups—this was especially true of the Radical vote—or to smaller parties. Among the latter, the Agrarian Laborites, a party of the extreme Right, headed by ex-General Carlos Ibáñez, registered one of the most surprising gains. Ibáñez, now Senator, exercised a military dictatorship over Chile in the late twenties, and was implicated, although later cleared, of participation in the 1948 military plot.

OLIVE HOLMES

News in the Making

Renewed tension in the *Tito-Cominform feud* arose from the reported arrival of three mechanized Russian divisions in southern Hungary across the Yugoslav border on August 27. Although Anglo-American observers regarded the prospect of direct Soviet military action possible but not probable, the move was interpreted as pressure against the Tito regime in two respects: (1) it provided support for whatever Communist opposition against Tito may exist within Yugoslavia; (2) it may be a prelude to guerrilla raids across the frontier. . . . Chinese Communists moved to consolidate their control of *Manchuria* by announcing on August 28 the establishment of a "People's Government for the Northeast." The new regime was expected to facilitate even closer ties between Manchuria and the Soviet Union. Through the Sino-Russian treaty of 1945 the Russians acquired partnership in control of the Manchurian railways and special commercial and naval rights at Port Arthur and Dairen. . . . Negotiations for a *Palestine settlement* are reaching the stage where the UN Conciliation Commission at Lausanne may soon consider territorial claims. Arab states are reported ready to ask for drastic revisions which would reduce Israeli territory below that allotted in the UN General Assembly partition plan. These demands are the prelude to hard bargaining in which the refugee question and the status of Jerusalem will also figure. . . . Meanwhile, UN Secretary General Trygve Lie announced the appointment of Gordon R. Clapp, chairman of the Tennessee Valley Authority, to head a *mission to the Middle East* which will attempt to win Arab-Israeli co-operation for building a healthy economy in the region. . . . In early September units of the United States Navy will visit the Spanish base at El Ferrol, where they will be received by Generalissimo Franco. This will be the first *visit of our fleet to Spain* since before the civil war, and will precede by only a few days the convening of the UN General Assembly, where the Spanish question is again scheduled for discussion.

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